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INFO RUEHOO/CHINA POSTS COLLECTIVE
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USDA FOR FAS/ITP AND FAS/FAA
USDOC FOR 4420/ITA/MAC/MCQUEEN
USPACOM FOR FPA

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [PGOV](#) [SOCI](#) [PHUM](#) [CH](#)

SUBJECT: Central and Local Officials Debate Public Services

(U) This document is sensitive but unclassified. Please protect accordingly.

11. (SBU) SUMMARY: Central officials, local officials, and academics attending a high level academic symposium in Hainan disagreed on how to efficiently and equitably build a "public service government." Central and local officials in attendance had very different views of their governance responsibilities, on transfer payments and budget allocation. Democracy remains officially a "taboo" topic but private conversations revealed some scholars' belief that democracy is an indispensable element for effective public services. END SUMMARY.

Background on the Seminar

12. (U) Econ/Pol Assistant attended an October 28-29 seminar in Hainan on "Public Service Systems in China: Relations between the Central Government and the Local Governments," which was hosted by the China Institute of Reform and Development (CIRD). Approximately 300 senior officials, scholars, and foreign representatives attended. CIRD actively promotes an active government role in the provision of public services, particularly education, medical care, and social security. The 5th Plenum of the 16th CPC Central Committee, in a statement issued in October, supported these ideas in the context of building a "harmonious society."

13. (U) In attendance were at least thirty senior central and local officials, vice minister or director general level. They included Wu Zhilun, Vice Minister of the State Commission for Public Sector Reform under the State Council; Wang Fuyu, Deputy Party Secretary of the Guizhou Province CPC Committee; and Wu Changyun, Executive Vice Governor of Hainan Province. Many speakers held senior positions in high-level research institutes or think tanks affiliated with central government ministries, including the Development and Research Center, the Institute of Fiscal Science under the Finance Ministry, Tsinghua University, and Peking University. Foreign representatives included the Deputy Secretary General of the United Nations and the first prime minister of Poland.

The Central/Local Divide

14. (SBU) All participants agreed that the Chinese government should provide more public services and should better define the policy and fiscal responsibilities of the central and local governments. However, central and local representatives openly disagreed on the

details, particularly the division of financial resources. Officials from Beijing criticized local governments for their obsession with investment promotion and urban infrastructure projects, saying they were ignoring the need for public services. Liu Shangxi, Deputy Director-General of the Fiscal Science Research Institute under the Financial Ministry, asserted that China should move toward a more centralized system of budget control and monitoring. In response, local officials complained that Beijing has given them public service responsibilities out of proportion to their budgets or transfer payments. They asserted that local governments must continue to focus on economic development because the central standard by which Beijing judges their performance is still GDP growth.

Budget Allocation

15. (SBU) According to some fiscal experts, three major players are involved in dividing China's treasury: the central government (which handles transfer payments), the central ministries (each of which controls an individual budget), and local governments. In 2005, China's total revenues reached RMB 3.16 trillion (USD 402 billion), of which the central government used 52 percent. The central government allots revenues from rich, coastal provinces to fund poorer provinces under programs such as the Great Western Development, the Rejuvenation of Northeastern China, and the Rise of Middle China. For example, in 2005 Sichuan Province had a revenue of RMB 70 billion (USD 8.88 billion) and received transfer payments from Beijing of over RMB 40 billion (USD 5.01 billion). Central government ministries also allocate RMB 200 billion (USD 253.8 billion) each year under various "special projects" they manage.

16. (SBU) The conflicts that result are apparent: the rich coastal contributors dislike the central government's approach of "robbing

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Peter to pay Paul," the poor provinces are eager for more transfer payments from Beijing; and the ministries have no interest in giving up their portion of the pie. Nevertheless, this approach to budget allocation is likely to continue for the foreseeable future, as the recent CPC Central Committee Plenum did not address the issue.

Economic Growth Versus Public Service

17. (SBU) Some speakers, including Fan Gang, a renowned scholar newly appointed to be a member of the central bank's Currency Commission, defended local governments' focus on economic development. He and others said local governments must pursue investment in order to sustain their public service budgets. In addition, spending on infrastructure by local governments is a form of public good. They also argued that China, as a developing country with a per capita GDP of only USD 1,200, cannot afford the northern European welfare model of providing abundant social benefits and in turn creating huge debts and fueling public expectations.

What About Effectiveness?

18. (SBU) Only one scholar noted the importance of public participation in creating an effective public service system. Cai Dingjian, a law professor from China University of Political Science and Law who also worked in the National Congress, said important financial resources are wasted because the public has no say in budgetary matters. Unfortunately, the conference host cut off Cai's remarks, citing insufficient time. However, in sideline discussions, several scholars and some officials expressed support for Cai's opinions and criticized senior leadership's unwillingness to devolve power and increase transparency.

19. (SBU) None of the Chinese officials or scholars touched upon the issue of democracy or directly called for democratic monitoring of public services administration. Even the less sensitive issue of the role of NGOs in the public service arena was largely left unaddressed. In addition, speakers did not discuss the potential effects of a slowing economy on China's ability to provide public

services.

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